

Message Text

UNCLASSIFIED

PAGE 01 BRUSSE 10570 01 OF 03 251711Z
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 /106 W
-----055172 251850Z /47

R 251652Z AUG 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 1525
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION GENEVA

UNCLAS SECTION 01 OF 03 BRUSSELS 10570

USOECD ALSO FOR EMBASSY, USEEC

USMTN

E.O. 11652: N/A
TAGS: ECON, EFIN, ELAB, BE
SUBJECT: BELGIAN ECONOMIC OVERVIEW AND FORECAST
REF: BRUSSELS 9236

1. SUMMARY. JUDGING FROM NEARLY ALL INDICATIONS, THE
BELGIAN ECONOMY WILL CONTINUE STAGNANT FOR SOME TIME YET,
PROBABLY AT LEAST THROUGH NEXT SPRING. INDUSTRIAL
PRODUCTION AND INVESTMENT PROSPECTS ARE FLAT, WITH
EXPORTS AND PRIVATE CONSUMPTION INCREASING ONLY SLOWLY.
INCREASED GOVERNMENT SPENDING WILL PROBABLY NOT BE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BRUSSE 10570 01 OF 03 251711Z

ENOUGH TO PUSH REAL GNP GROWTH BEYOND THE 2.5-2.7 PERCENT
RANGE. THESE PROBLEMS ARE ENDEMIC ELSEWHERE, OF COURSE--
AND THE BELGIANS CAN AT LEAST COUNT SOME SUCCESS IN
REDUCING INFLATION AND PRESERVING A STABLE EXTERNAL
POSITION. THE COST OF THESE VICTORIES, HOWEVER, IS VERY
HIGH UNEMPLOYMENT WHICH HAS SKEWED THE BUDGET AND WILL
SQUEEZE THE GOVERNMENT'S OPTIONS AS IT PREPARES TO TACKLE

SERIOUS LONG-RUN STRUCTURAL PROBLEMS IN THE ECONOMY. ONE OF THESE--STEEL--IS ALREADY GIVING SIGNS OF EARLY TROUBLE, WITH POSSIBLE IMPLICATIONS FOR GENERAL BELGIAN (AND PERHAPS EC) INDUSTRIAL POLICY. AN EMERGENCY REORGANIZATION OF THE SMALL BELGIAN/LUXEMBOURG COMPANY MMRA THIS SUMMER WILL LIKELY FORCE THE GOVERNMENT TO TAKE RESPONSIBILITY FOR OVER 1,000 REDUNDANT WORKERS, AN INAUSPICIOUS (IF PROBABLY UNAVOIDABLE) PRELUDE TO MUCH LARGER SCALE CONVERSIONS IN THE BELGIAN STEEL INDUSTRY DUE TO BEGIN NEXT YEAR. END SUMMARY.

2. THE UPCOMING WASHINGTON VISIT OF PRIME MINISTER TINDEMANS PROVIDES A TIMELY OCCASION FOR A FRESH LOOK AT THE PACE AND FUTURE OF THE BELGIAN ECONOMY, AS IT ENTERS THE LAST QUARTER OF A GENERALLY DISAPPOINTING YEAR.

3. BELGIAN VACATIONERS, RETURNING FROM THE SUN TO AN UNUSUALLY DREARY AUGUST AT HOME, WILL NOT FIND MUCH CHEER IN ECONOMIC PROSPECTS FOR THE COMING SIX TO TWELVE MONTHS. INDUSTRIAL PRODUCTION HAS SLUMPED ABOUT 2 PERCENT SINCE THE NEW YEAR--A FIGURE WHICH MASKS LARGER DROPS IN THE ACTIVITY OF TEXTILES, STEEL AND CERTAIN OTHER PROBLEM SECTORS. COMPANY ORDER BOOKS SHOW A GENERAL SLACKENING OF PRODUCTION OVER THE FIRST SIX MONTHS OF THIS YEAR. EXPORT GROWTH, AT PLUS 7.2 PERCENT (VALUE) ANNUALLY THROUGH MAY, IS WELL BELOW THAT OF 1976. PRIVATE CON-

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BRUSSE 10570 01 OF 03 251711Z

SUMPTION ALSO CONTINUES TO GROW SLOWLY (ABOUT 3 PERCENT ANNUALLY), REFLECTING HIGH UNEMPLOYMENT, HIGHER TAXES, AND RELATIVELY LOW WAGE INCREASES OVER THE PAST EIGHTEEN MONTHS. IN FACT, THE ONLY EXPANSIVE COMPONENT OF DOMESTIC DEMAND IS GOVERNMENT SPENDING. GOVERNMENT DISBURSEMENTS JANUARY-MAY WERE UP OVER 15 PERCENT ABOVE 1976 LEVELS AND ARE TO SWELL EVEN FURTHER IN 1978 (SEE REFTEL). OVERALL, REAL BELGIAN GNP GROWTH IN 1977 MAY COME IN A POINT OR TWO BELOW THE OECD'S RELATIVELY PESSIMISTIC PLUS 2.7 PERCENT FORECAST LAST JUNE (COMPARED TO PLUS 2.3 PERCENT REALIZED IN 1976).

4. VIRTUALLY ALL NATIONAL AND INTERNATIONAL INDICATORS SEEM TO POINT TO CONTINUATION OF THIS FLAT TREND, AT LEAST THROUGH NEXT SPRING. BELGIAN RELIANCE ON EXPORT DEMAND MEANS FIRST AND FOREMOST RELIANCE ON WEST GERMAN MARKETS, WHICH GENERALLY TAKE OVER 10 PERCENT OF BELGIAN GNP. BUT EVEN SHARP REVIVAL IN THE FEDERAL REPUBLIC LATE THIS YEAR WOULD PROBABLY LAG FOUR TO SIX MONTHS BEFORE BEING FULLY FELT HERE. THEREFORE, THE LOCAL BUSINESS CLIMATE REMAINS GENERALLY POOR. THE NATIONAL BANK'S "SYNTHETIC INDICATOR", A MONTHLY SURVEY OF BUSINESS

ATTITUDES ON THE FUTURE, WOBBLED UP AND DOWN UNCERTAINLY
LAST WINTER/SPRING, BUT HAS DROPPED THE LAST THREE MONTHS.
CAPACITY UTILIZATION HAS NOT MOVED SIGNIFICANTLY FROM THE
73.5 PERCENT REGISTERED LAST JANUARY. PROFITS HAVE RISEN
FROM THEIR LOW POINT IN 1976, BUT REMAIN THIN, PARTICULARLY
IN MANY EXPORT INDUSTRIES. NEW BUSINESS INVESTMENT IN
1977 IS THUS NOT LIKELY TO RISE ABOVE THE ALREADY LOW
LEVEL OF 1976, AND PRELIMINARY SURVEYS GIVE LITTLE HOPE

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BRUSSE 10570 02 OF 03 251720Z
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 /106 W
-----055317 251850Z /47

R 251652Z AUG 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 1526
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION GENEVA

UNCLAS SECTION 02 OF 03 BRUSSELS 10570

OF ANY SUBSTANTIAL IMPROVEMENT IN 1978.

5. MANY OF THESE PROBLEMS ARE, OF COURSE, FAR FROM
PECULIAR TO BELGIUM. AND, THE BELGIAN GOVERNMENT CAN TAKE
SOME SATISFACTION FROM THE FACT THAT ITS TOP PRIORITY
GOAL--I.E., MAINTENANCE OF A STRONG EXTERNAL POSITION WITH
RELATIVELY LOW INFLATION--IS FAIRLY WELL IN HAND. DESPITE
A WORSENING TRADE DEFICIT OVER THE FIRST FIVE MONTHS OF
1977 (31.7 BILLION, UP 21 PERCENT FROM 1976), A STRONG
SURPLUS IN SERVICES, OTHER INVISIBLES AND EARNINGS FROM
OVERSEAS INVESTMENTS HAS KEPT THE B/P CURRENT ACCOUNT
MARGINALLY IN THE BLACK (BF 1.2 BILLION). NATIONAL BANK

ANALYSTS NOW EXPECT A SLIGHT SURPLUS OR VIRTUAL EQUILIBRIUM FOR THE YEAR AS A WHOLE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BRUSSE 10570 02 OF 03 251720Z

6. FOR THE LONGER TERM, OECD AND IMF FIGURES RELEASED THIS SUMMER APPEAR TO SHOW A CLEAR REVERSAL OF THE 1974-75 TREND TOWARD DECLINING BELGIAN COMPETITIVENESS ON WORLD MARKETS. BELGIAN EXPORTS INCREASED IN 1976 AND EARLY 1977 AT A PACE ABOVE THE OECD AVERAGE, A PERFORMANCE WHICH ALSO EXCEEDED THE GROWTH OF NORMAL BELGIAN MARKETS. BELGIAN UNIT LABOR COSTS DROPPED 5.1 PERCENT IN 1976 VS. 4.6 PERCENT IN COMPETITOR COUNTRIES, COUNTERBALANCING DETERIORATING TERMS OF TRADE AND PROBABLY ACCOUNTING IN PART FOR A RISE IN THE UEBL SHARE OF TOTAL EC EXPORTS LAST YEAR, FROM 9.5 TO 11.1 PERCENT. THE RISE IN LABOR COSTS HAS REMAINED MODERATE THROUGH JUNE 1977 (PLUS 7.9 PERCENT ON AN ANNUAL BASIS) AND CERTAIN BELGIAN EXPORTERS (E.G., PLASTICS, AUTOMOBILES) ARE DOING QUITE WELL. THERE THUS DO NOT APPEAR TO BE ANY UNDERLYING TRENDS AT THIS TIME WHICH COULD LEAD TO SERIOUS DETERIORATION OF THE BELGIAN CURRENT BALANCE, AT LEAST THROUGH 1978.

7. THIS STEADY EXTERNAL POSITION IS LARGELY DUE TO BELGIAN SUCCESS IN CONTROLLING THE PACE OF INFLATION. THE CONSUMER PRICE INDEX IS CURRENTLY UP 7.2 PERCENT OVER LAST YEAR (JULY); MOST OBSERVERS FORECAST IT AT 7-8 PERCENT FOR THE YEAR. THIS IS THE SECOND LOWEST RATE IN THE EC. IT HAS HELD DOWN WAGE GAINS ARISING FROM THE AUTOMATIC INDEXATION SYSTEM AND HAS UNDOUBTEDLY HELPED TO KEEP PEACE SO FAR THIS YEAR IN THE EUROPEAN CURRENCY "SNAKE". THE DETENTE ON FOREIGN EXCHANGE MARKETS HAS ALLOWED INTEREST RATES TO CONTINUE FALLING SLOWLY OVER THE FIRST PART OF 1977. THE NATIONAL BANK MARKED THIS TREND IN LATE JUNE WHEN IT REDUCED THE CENTRAL DISCOUNT RATE FROM 6.5 TO 6 PERCENT, THE FOURTH SUCH DROP THIS YEAR. THE GOVERNMENT AND THE NATIONAL BANK THUS FEEL JUSTIFIED IN THE SNAKE-ORIENTED "HARD CURRENCY" OPTION THEY ADOPTED

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BRUSSE 10570 02 OF 03 251720Z

IN 1975. THE STANCE STILL ENJOYS WIDE SUPPORT IN THE COUNTRY AND, BARRING PROLONGED TURBULENCE ON THE EXCHANGE MARKETS, WILL CONTINUE AS THE KEYSTONE OF BELGIAN MONETARY POLICY.

8. THE COST OF THIS EXTERNAL STABILITY IS INTERNAL INSTA-

BILITY ON THE BELGIAN LABOR SCENE. THE NUMBER OF FULLY EMPLOYED IS NOW OVER A QUARTER-MILLION, 6.5 PERCENT OF THE ACTIVE POPULATION (SECOND ONLY TO IRELAND IN THE EC), AND MOUNTING. ASIDE FROM ITS EVENTUAL SOCIAL EFFECTS, PARTICULARLY AMONG NEW SCHOOL GRADUATES, THE CONTINUING GROWTH OF UNEMPLOYMENT HAS THROWN THE NATIONAL BUDGET INTO WHAT THREATENS TO BECOME A STRUCTURAL DEFICIT IN CURRENT OPERATIONS (SEE REFTEL AND BRUSSELS A-57). THE DEFICIT POSES A SERIOUS THREAT TO THE GOVERNMENT'S ANTI-INFLATION EFFORTS, PARTICULARLY IF AND WHEN RECOVERY BRINGS GREATER PRIVATE DEMAND ON LOCAL MONEY MARKETS. IT ALSO WILL INEVITABLY MAKE THE GOVERNMENT'S FISCAL CHOICES MORE PAINFUL AS IT PREPARES TO GRAPPLE WITH OTHER NATIONAL PRIORITIES, SOME OF VITAL IMPORTANCE TO THE LONG-RUN COURSE OF THE ECONOMY.

9. FINALLY, THE SUMMER ALSO BROUGHT AN UNSETTLING CURRENT REMINDER OF JUST HOW DIFFICULT SUCH A CHOICE OF PRIORITIES WILL BE. IT HAS ARISEN IN ONE OF THE MOST PRESSING OF BELGIUM'S LONG-TERM PROBLEMS--RATIONALIZATION OF ITS STEEL INDUSTRY. FOR THE PAST TWO MONTHS, HIGH OFFICIALS OF THE BELGIAN AND LUXEMBOURG GOVERNMENTS, EC COMMISSIONER DAVIGNON, AND A GAGGLE OF BANKERS, TRADE UNIONISTS AND LUXEMBOURG STEEL INTERESTS HAVE BEEN NEGOTIATING THE RESTRUCTURING OF THE SMALL MMRA STEEL COMPANY, A FIRM INCORPORATED IN THE GRAND DUCHY BUT BELGIAN-OWNED WITH

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BRUSSE 10570 03 OF 03 251723Z
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 /106 W
-----055382 251849Z /47

R 251652Z AUG 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 1527
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME

AMEMBASSY THE HAGUE
USMISSION GENEVA

UNCLAS SECTION 03 OF 03 BRUSSELS 10570

OPERATIONS ON BOTH SIDES OF THE BORDER. WHAT WOULD APPEAR ON THE SURFACE TO BE A MINOR AFFAIR HAS RECEIVED SUCH A LEVEL OF ATTENTION (INCLUDING WIDE COVERAGE IN THE BRUSSELS PRESS) PARTLY BECAUSE OF ITS COMPLEX INTERNATIONAL AND EUROPEAN COMMUNITY ASPECTS--BUT ALSO BECAUSE IT MAY HAVE IMPORTANT LONGER-RUN IMPLICATIONS FOR BELGIAN (AND PERHAPS ULTIMATELY EC) INDUSTRIAL POLICY.

10. THE TENTATIVE SETTLEMENT TO PUT MMRA ON A NEW, MORE SUSTAINABLE BASIS WILL INCLUDE A COMPLETE SHUTDOWN OF THE BELGIAN PART OF THE OPERATION AND REDUCTION OF OPERATIONS AT RODANGE IN LUXEMBOURG; THIS WILL COST A TOTAL OF OVER 1,000 BELGIAN JOBS. THE BELGIAN GOVERNMENT PLANS TO EMPLOY ABOUT ONE-THIRD OF THESE MEN IN PUBLIC WORKS, PENSION OFF ANOTHER THIRD, AND GUARANTEE THE REMAINDER VIRTUALLY ALL THEIR CURRENT SALARY FOR AN UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BRUSSE 10570 03 OF 03 251723Z

INDEFINITE PERIOD, WHILE A REGIONAL JOB BUREAU IS ESTABLISHED TO TRY TO FIND PERMANENT NEW EMPLOYMENT. THIS OPERATION WILL COST THE GOVERNMENT AN ESTIMATED BF 350 MILLION IN THE FIRST YEAR. IT ALSO HAS GIVEN RISE TO CONSIDERABLE SPECULATION AS TO HOW THE GOVERNMENT WILL DEAL WITH THE PERHAPS 7-8,000 STEEL WORKERS WHO COULD BE DISPLACED BY CONVERSION, BEGINNING NEXT YEAR, IN THE MAJOR CENTERS OF LIEGE AND CHARLEROI. CHAMBERS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL TRENDS, INTELLIGENCE ASSESSMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 25-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRUSSE10570
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770307-0933
Format: TEL
From: BRUSSELS USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770825/aaaaaurn.tel
Line Count: 312
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 5f717053-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 BRUSSELS 9236
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1491194
Secure: OPEN
Status: NATIVE
Subject: BELGIAN ECONOMIC OVERVIEW AND FORECAST
TAGS: ECON, EFIN, ELAB, BE
To: STATE USOECD MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/5f717053-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009